

VZCZCXRO9177  
PP RUEHBC RUEHDE RUEHKUK RUEHROV  
DE RUEHLB #0450/01 0911518  
ZNY CCCCC ZZH  
P 311518Z MAR 08  
FM AMEMBASSY BEIRUT  
TO RUEHC/SECSTATE WASHDC PRIORITY 1398  
INFO RUEHEE/ARAB LEAGUE COLLECTIVE  
RUEHNO/USMISSION USNATO 2348  
RHMFISS/CDR USCENCOM MACDILL AFB FL  
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 000450

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E.O. 12958: DECL: 03/30/2018  
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SUBJECT: LEBANON: FINMIN AZOUR HOPES CONTINUED REFORMS  
WILL DEFEAT OPPOSITION; COMMENTS ON SECURITY SPENDING  
(C-NE8-00440)

REF: STATE 29685

Classified By: CDA Michele Sison for reasons 1.4 (b) and (d)

Summary

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11. (C) Finance Minister Azour told Charge that the reform agenda for Lebanon, successful so far but facing serious challenges in light of the paralyzed GOL, is the only way to maintain the credibility of the government in the face of Hizballah's political attacks. Keys to success of the reform program include privatization of the telecom sector, passing draft bills on economic reform, and approving project financing. Azour plans to formally ask the IMF for a new EPCA program, and suggests that the USG consider what he hopes will be a EPCA agreement as benchmarks for Paris III donations. His proposals for new benchmarks are not completed, and he offered to meet with Charge at a later date, before the IMF spring meetings, to review them. USG agreement with the GOL on new benchmarks will be a critical step in our continuing efforts to identify practical ways to support the Siniora government, which continues to be under pressure from Syria and its allies in Lebanon. We will convey Azour's benchmark proposal also to the Department when we have them. Azour said that military and security spending have increased largely due to heavy recruitment of personnel. We do not believe this reflects an increase in the LAF's combat capability. End summary.

IN THE ABSENCE OF A FUNCTIONING GOVERNMENT  
REFORMS ARE STILL PRIORITIES  
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12. (C) In a March 28 meeting, Finance Minister Jihad Azour, accompanied by key staff members Roula Rizk Azour, Houda Saigh, and Nadine Yazbeck, reviewed for Charge, USAID Director, and Econoff his plans for continued reform in 2008. Azour had not expected the protracted absence of a functioning government, due to the failure of efforts to elect a new president, to last as long as it has (since November 2007). Now, however, faced with the need to plan for the year ahead, Azour's goal is to "shift gears on reforms, with the same priorities." The keys to moving ahead include privatization of the mobile telephone sector, which is still possible, according to Azour. In addition, there are more than thirty draft laws waiting for parliamentary approval which will enhance economic reform. Finally, the GOL has received more than \$1 billion from international donors for reform projects which require parliamentary approval.

NEW EPCA WILL  
BENEFIT THE COUNTRY  
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13. (C) In Azour's opinion, there are only two choices facing the GOL: continue with the reform agenda, or allow Hizballah to win by destroying the credibility of the majority government. Azour plans to "keep the compass in the same direction," and build on the financial success of the GOL during 2007. With this in mind, he says that the GOL will ask the International Monetary Fund (IMF) for a new Emergency Post Conflict Assistance (EPCA) program at the IMF spring meetings in April. Lebanon cannot ask for a standby, since that would require approval by parliament, unlike an EPCA. While seeking an EPCA will not be an easy sell politically, the country will benefit, in Azour's opinion.

NEW PRIORITIES CAN  
BE NEW BENCHMARKS FOR USG ASSISTANCE  
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14. (C) In preparing the groundwork for a new EPCA, Azour's team is developing key priorities for reform in 2008. These priorities, and the formalization of the EPCA itself, could provide relevant benchmarks for remaining U.S. Paris III grants, which were previously tied to gas excise tax increases and sale of mobile telecom licenses. Azour feels somewhat confident in proposing this, since his efforts in 2007 were viewed as fully successful by the IMF, and this week Moody's rating agency upped its outlook on Lebanon to "stable," in large part due to public finance success in meeting all financial obligations. Azour rightly takes credit for managing that effort.

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AZOUR WILL REVIEW GOALS  
PRIOR TO MEETINGS IN APRIL  
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15. (C) Azour proposed discussing his reform program plans with Charge prior to the April meetings, at which time he will have a clearly developed set of priorities for 2008. This will allow his discussions with the USG, which will take place in DC in April, to dovetail with his request for an EPCA from the IMF, and align his priorities with those of the donor community.

HEAVY SPENDING ON SECURITY  
TIED TO HEAVY RECRUITING  
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16. (C) Azour expanded on earlier statements to Charge about increased spending on the military and security sectors, which he had said were increasing rapidly. He pointed out that the Internal Security Forces (ISF) had added an additional 12-24,000 new recruits, and the Lebanese Armed Forces (LAF) have added more than 15,000. Due to the nature of the Lebanese system of benefits, which adds approximately \$.60 for every \$1.00 of salary, this has been a significant impact on the budget of the GOL.

COMMENT  
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17. (C) Continued U.S. economic support for the Lebanese government is a critical sign of our political support. In the current political environment, it is not feasible for the government of PM Siniora to achieve the existing benchmarks for disbursement of the remainder of the U.S. cash transfer. An increase in the gasoline tax, for example, would be immediately exploited by the pro-Syrian Lebanese opposition to weaken support for Siniora. We expect FinMin Azour to provide his proposals for new benchmarks soon. In Embassy's view, it is important to work with the government to agree on

new benchmarks that will promote reform, but also will ensure that we can continue our financial and political support to the Siniora government.

18. (C) Regarding the GOL security budget, it is important to note that we believe that the numbers Azour mentions for the security services do not reflect an increase in combat capability for the LAF. There have been many retirements and former draftees have left the LAF during the last year, and the recruits Azour mentions are most likely filling the positions vacated. Retirement and veterans benefits are paid for by the Ministry of Finance, and could account for Azour's assessment of increased costs. Even with the recent recruiting drive, many units remain undermanned, according to the recent Comprehensive Training Program Survey conducted by U.S. Brigadier General (Retired) Les Fuller. This survey revealed critical shortages in personnel and funding for the LAF. This comment responds to INL Request C-NE8-00440 in reftel.  
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